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TAGS: [ETRD](#) [ENRG](#) [PREL](#) [PUNE](#) [TRGY](#) [JA](#) [RS](#)

SUBJECT: JAPAN-RUSSIA ECONOMIC ENGAGEMENT: PROGRESS ON  
NUCLEAR COOPERATION, SLOW MOVEMENT ON RUSSIAN FAR EAST

REF: A. TOKYO 1107  
[1](#)B. TOKYO 1009  
[1](#)C. TOKYO 894  
[1](#)D. TOKYO 667  
[1](#)E. TOKYO 663  
[1](#)F. TOKYO 269  
[1](#)G. 08 TOKYO 2733

Classified By: CHARGE D'AFFAIRES JIM ZUMWALT FOR REASONS 1.4 (B),(D)

[1](#)1. (C) SUMMARY: Japanese officials expect economic engagement with Russia to proceed slowly despite Russian Prime Minister Vladimir Putin's widely-reported pitch for broader investment in the Russian Far East. The bilateral civil nuclear cooperation agreement will advance cooperation in the nuclear industry. However, despite ongoing interest in oil and gas projects, GOJ officials do not perceive significant interest in other investment opportunities promoted by Russia until overall economic conditions improve.  
END SUMMARY.

Following Nuclear Agreement, MOFA Pleased  
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[1](#)2. (SBU) Putin and Japanese Prime Minister Taro Aso signed an expected bilateral civil nuclear cooperation agreement May 12 (ref A). The final signature made headlines in the Japanese press, even though they had been reporting on the deal since March 2009. Press reports and comments from MOFA officials indicate the agreement is intended to allow Japan to obtain uranium and uranium enrichment services from Russia, while allowing Japanese companies to participate in constructing nuclear power plants in Russia.

[1](#)3. (SBU) While the GOJ has not publicly released the agreement's text, MOFA Principal Deputy Director for International Nuclear Energy Cooperation Zenta Naganuma noted MOFA intends to brief USG officials on the details of the agreement during a future visit to Washington. According to Naganuma, MOFA will not release the text until the GOJ submits the agreement to the Diet, as it is required to do before ratification. He added MOFA has no plans to submit the agreement during the current Diet session.

METI Moving Forward Even Absent Diet Ratification  
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[1](#)4. (SBU) Elements within the GOJ and some parts of Japanese industry have moved quickly on cooperative efforts even though the agreement has not been ratified. Immediately following the agreement's signing, the Ministry of Economy, Trade and Industry (METI) and Russia's State Atomic Energy Corporation (ROSATOM) released a joint statement on cooperation in peaceful uses of nuclear energy. The statement says the organizations will facilitate cooperation in nuclear industries such as uranium mining and fuel cycle

and plant construction. It also notes the two sides will encourage other countries adopting nuclear power to do so in a manner than ensures non-proliferation.

¶15. (U) Likewise, several Japanese firms reported progress in nuclear deals with Russia since the May 12 signing. Toshiba announced it will begin negotiating with Russian state-run firm Atomenergoprom towards jointly enriching uranium and, according to press reports, Mitsui and Co. Ltd. is negotiating with Rosatom to develop a uranium mine in Siberia.

¶16. (SBU) Following the joint statement's release, Econoff and DOE attache met with officials in METI's Nuclear Energy Policy Planning Division on METI's expectations for Russia-Japan cooperation. Principal Deputy Director Hirokazu Kobayashi noted METI wrote the joint statement broadly so as not to preclude any areas of cooperation. He highlighted uranium mining, fuel cycle, and plant construction as three areas of cooperation specifically mentioned in the document. When queried about why these areas were singled out, he pointed to interest on the part of industry, specifically Toshiba. According to Kobayashi, there were not any "strong inputs" to the statement from the Russian side.

¶17. (SBU) Kobayashi discounted Japanese press reports suggesting Russian nuclear fuel supply to Japan will increase from 15% to 25% as "a Russian expectation" and that any increases would depend on the market and not on governmental agreement. He also noted, despite press discussion of possible cooperation on reprocessing, that he did not think any companies had plans for joint business in that area.

¶18. (SBU) Econoff confirmed with Kobayashi that the new Japan-Russia cooperation agreement and the METI-Rosatom joint statement do not affect current GOJ export control regulations. Kobayashi described the agreements as permitting joint business to occur, but not altering the existing export licensing requirements for Japanese corporations.

#### Some Progress on Oil and Gas Exploration, Renewables

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¶19. (SBU) Agreements in oil and gas sector cooperation were less sweeping than the nuclear cooperation agreement. One tangible outcome was agreement between the quasi-governmental Japan Oil, Gas and Metals Exploration Corporation (JOGMEC) and the Irkutsk Oil Company to form an oil exploration joint-venture. The joint-venture will drill in two blocks located along the route of the proposed Siberia-Pacific oil pipeline. The two blocks are estimated to hold 100 million barrels of oil. The agreement adds to the JOGMEC's existing project in Irkutsk's Severo-Mogdinsky block that grew out of a joint Japan-Russia initiative to strengthen cooperation in the Russian Far East started in June 2007. On the downstream side, Japan's Mitsui Corporation, Toyo Engineering, and Russia's Rosneft agreed on a high-efficiency oil refinery and petrochemical plant in Nakhodka on Russia's eastern seaboard.

¶10. (C) In widely-reported remarks to Japan's business federation and in his meeting with Aso, Putin invited Japanese firms to participate in several projects, including a pipeline from Sakhalin to Vladivostok, liquefied natural gas refineries, and Sakhalin III. Following the visit, MOFA Russia Division Principal Deputy Director Kotaro Otsuki told emboffs the ongoing economic slowdown has made financing such projects difficult. He said public financing from the GOJ-backed Japan Bank for International Cooperation (JBIC) may catalyze private companies' interest in underwriting future resource development projects, e.g., the Shtokman gas field. However, he said the memoranda of understanding between JBIC and Russia's Vnesheconombank as well as between each country's trade finance institutions were largely symbolic. Otsuki added the global economic downturn and uncertainty over whether Japanese firms would be able to bring resources produced from such projects back to Japan or

be required to sell them to the Russian market has also slowed progress.

¶11. (SBU) Renewable energy is an emerging area of Japan-Russia energy cooperation. During Putin's visit, METI Minister Toshiro Nikai and Russian Energy Minister Sergei Shmatko concluded an MOU on energy conservation and renewable energy that highlighted four areas of collaboration between Japanese and Russian firms. Notably, Mitsui, electricity wholesaler J-power, and the Russian state-owned electric company RusHydro agreed to develop a 40 megawatt wind power project in Vladivostok. The project would reportedly be Russia's first wind power operation.

#### Questionable Interest in Broader Investment

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¶12. (C) Foreign Ministry and METI officials confirmed the Russian delegation provided a list of around two hundred investment opportunities across Russia for Japanese firms. Otsuki said MOFA began circulating the list among Japanese firms in late May, but he did not anticipate much interest. The scale of the projects was underwhelming, Otsuki said, and it is unclear whether Japanese firms would be able to repatriate any profits. Otsuki added Japanese firms' concerns about transferring sensitive technology and the ability to protect intellectual property temper their response to Russian invitations to invest in such areas as nanotechnology and IT.

¶13. (C) METI Trade Bureau Russia desk officer Noriaki Kojima said the projects on the list are generally small-scale regional and local development projects; he does not anticipate substantial interest from Japanese firms in the current economic conditions. Kojima added ambiguity over which projects ultimately have central government backing may further hinder Japanese firms' interest. For the time being, Kojima said, Japanese trade and investment will continue to be in the traditional areas of consumer retail and manufacturing for the European Russian market.

#### No Progress on Russian Auto Tariffs

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¶14. (C) Aso raised the matter of Russia's tariff on auto imports with Putin, but gained no traction. Shortly after the visit, METI released an annual report on trade agreement compliance by major trade partners. The report includes the Russian tariff on an expanded list of "priority developments toward protectionism" and criticizes Russia's move as contrary to its aspirations for WTO membership.

ZUMWALT